



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**Conifex Announces First Quarter 2021 Results**

May 11, 2021, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the first quarter ended March 31, 2021. EBITDA\* from continuing operations was \$9.7 million versus negative EBITDA of \$3.5 million in the first quarter of 2020. Net earnings were \$4.5 million or \$0.10 per share in the quarter versus a loss in the year-earlier quarter of \$0.18 per share. The results reflect significantly higher lumber prices, partially offset by a disruption in power production and reduced shipments reflecting rail car shortages.

Chairman and CEO Ken Shields commented: “Our results in the 13-week reporting period were held back because we only operated our power plant for six weeks and were only able to ship 10 weeks of lumber production.”

**Selected Financial Highlights**

The following table summarizes our selected financial information for the comparative periods. Unless otherwise noted, financial information reflects results of continuing operations from our Mackenzie sawmill and power plant.

**Selected Financial Information<sup>(1)</sup>**

(unaudited, in millions of dollars, except share and exchange rate information)

	<b>Q1 2021</b>	<b>Q4 2020</b>	<b>Q1 2020</b>
<b>Sales</b>			
Lumber – Conifex produced	39.9	42.0	20.9
Lumber – wholesale	0.6	1.7	-
By-products	2.4	-	1.7
Bioenergy	3.7	6.1	8.0
	<b>46.6</b>	<b>49.8</b>	<b>30.6</b>
Operating income (loss)	8.7	4.6	(6.8)
EBITDA from continuing operations <sup>(2)</sup>	9.7	6.8	(3.5)
Net income (loss) from continuing operations	4.5	2.2	(8.2)
Net income (loss) from discontinued operations	-	0.1	0.5
<b>Net income (loss)</b>	<b>4.5</b>	<b>2.3</b>	<b>(7.7)</b>
<b>Basic and diluted earnings (loss) per share</b>			
Continuing operations	0.10	0.05	(0.18)
Discontinued operations	-	-	0.01
<b>Total basic and diluted earnings (loss) per share</b>	<b>0.10</b>	<b>0.05</b>	<b>(0.17)</b>
Shares outstanding – weighted average (millions)	46.4	47.0	46.9
<b>Reconciliation of EBITDA to net income (loss)</b>			
Net income (loss) from continuing operations	4.5	2.2	(8.2)
Add: Finance costs	1.1	1.3	3.5
Amortization	2.2	2.8	2.9
Deferred income tax expense (recovery)	1.9	0.5	(1.7)
<b>EBITDA from continuing operations<sup>(2)</sup></b>	<b>9.7</b>	<b>6.8</b>	<b>(3.5)</b>

\* Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization. We disclose EBITDA as it is a measure used by analysts and by our management to evaluate our performance. As EBITDA is a non-GAAP measure that does not have any standardized meaning prescribed by International Financial Reporting Standards, it may not be

comparable to EBITDA calculated by others and is not a substitute for net earnings or cash flows, and therefore readers should consider those measures in evaluating our performance.

### Selected Operating Information

Production – WSPF lumber (MMfbm) <sup>(3)</sup>	51.0	48.3	38.2
Shipments – WSPF lumber (MMfbm) <sup>(3)</sup>	37.8	49.1	37.6
Shipments – wholesale lumber (MMfbm) <sup>(3)</sup>	0.7	1.8	-
Electricity production (GWh)	25.0	41.7	54.8
Average exchange rate –\$/US\$ <sup>(4)</sup>	0.790	0.767	0.744
Average WSPF 2x4 #2 & Btr lumber price (US\$) <sup>(5)</sup>	\$982	\$700	\$399
Average WSPF 2x4 #2 & Btr lumber price (\$) <sup>(6)</sup>	\$1,244	\$912	\$536

(1) Reflects results of continuing operations, except where otherwise noted.

(2) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

(3) MMfbm represents million board feet.

(4) Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca).

(5) Random Lengths Publications Inc.

(6) Average SPF 2x4 #2 & Btr lumber prices (US\$) divided by average exchange rate.

### Summary of First Quarter 2021 Results

#### Consolidated Net Earnings

During the first quarter of 2021, we recognized net income from continuing operations of \$4.5 million, or \$0.10 per share compared to \$2.2 million or \$0.05 per share in the previous quarter and a net loss of \$8.2 million or \$0.18 per share in the first quarter of 2020.

#### Lumber Operations

North American lumber market prices remain at historically elevated levels, fuelled by North American home construction and repair and remodelling activities. US housing starts on a seasonally adjusted annual basis averaged 1,613,000 in the first quarter of 2021, up 2% from the previous quarter and 9% from the first quarter of 2020. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family housing starts.

The US dollar averaged US\$0.790 for each Canadian dollar during the first quarter of 2021, a level which represented a strengthening of the Canadian dollar over the previous quarter. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$1,244 in the first quarter of 2021, increased by 36% or \$332 from the previous quarter and by 132% or \$708 from the first quarter of 2020. The increase in lumber demand, coupled with the impact of supply disruptions caused by COVID-19 response measures, resulted in a significant increase to the benchmark WSPF lumber price during the first quarter of 2021.

Our lumber production in the first quarter of 2021 totalled approximately 51.0 million board feet, representing operating rates of approximately 85% of annualized capacity. In the previous quarter, 48.3 million board feet of lumber was produced which reflected a short period of downtime at the beginning of the quarter arising from challenging logging conditions. In the first quarter of 2020, we produced 38.2 million board feet of lumber as a result of a reduced daily operating configuration.

Shipments of Conifex produced lumber totaled 37.8 million board feet in the first quarter of 2021, representing a decrease of 23% from the 49.1 million board feet shipped in the previous quarter and an increase of 1% from the 37.6 million board feet of lumber shipped in the first quarter of 2020. The lower shipments of Conifex produced lumber in the quarter were primarily due to ongoing railcar supply challenges. Our wholesale lumber program shipped 0.7 million board feet in the first quarter of 2021.

Revenues from lumber products were \$40.5 million in the first quarter of 2021 representing a decrease of 7% from the previous quarter and an increase of 94% from the first quarter of 2020. Compared to the previous quarter, the lower revenues were driven by lower shipment volumes, offset partially by higher realized lumber prices in the current quarter. Increased revenues from the first quarter of 2020 were driven

by higher mill net realizations. Our lumber is typically sold 2-4 weeks in advance of its shipment date, resulting in a lag in our realized lumber prices when compared to concurrent reported lumber prices. As a result, a portion of the significant lumber price increase during March 2021 will be realized in the second quarter of 2021.

Cost of goods sold in the first quarter of 2021 decreased by 14% from the previous quarter and increased by 3% from the first quarter of 2020. The decrease in cost of goods sold from the prior quarter was due to lower overall shipments in the current quarter, offset partially by higher log costs. Unit manufacturing costs decreased in comparison to the previous quarter and were significantly below the first quarter of 2020 as a result of a reduced operating format in the prior year.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$2.5 million in the first quarter of 2021, \$4.6 million in the previous quarter and \$2.0 million in the first quarter of 2020. The duty deposits were based on a combined rate of 20.23% until December 1, 2020 and 8.99% thereafter. The export taxes during the first quarter of 2021 were significantly lower than the previous quarter due to the reduced combined duty rate and tempered by the increased proportion of lumber shipments made to the US market.

#### Bioenergy Operations

Our Mackenzie power plant sold 25.0 gigawatt hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with BC Hydro and Power Authority (“**BC Hydro**”) in the first quarter of 2021, representing approximately 46% of targeted operating rates. The Mackenzie power plant sold 41.7 and 54.8 gigawatt hours of electricity in the previous quarter and first quarter of 2020, respectively. The decrease in production in the first quarter of 2021 and fourth quarter of 2020 was driven by a disruption in December 2020 caused by damage to the plant’s generator, resulting in 80 days of unplanned downtime. A replacement for the failed component of the power plant was procured from the original equipment manufacturer and installed in February 2021. The power plant was successfully recommissioned and began producing electricity at normalized rates on February 21, 2021.

We are finalizing our insurance claim for physical damage to our equipment and for the loss of revenues from the interruption of operations. We expect to be fully reimbursed for capital expenditures related to the replacement of our generator and for lost income for the period covered under our business interruption policy, being the period between the expiry of the waiting period and the recommencement of the power plant.

Our EPA with BC Hydro, similar to other electricity purchase agreements, provides BC Hydro with the option to “turn down” electricity purchased from us during periods of low demand by issuing a “dispatch order”. In April 2021, BC Hydro issued a dispatch order for 61 days, from May 1 to June 30, 2021. In 2020, our power plant was dispatched for 117 days, from April 24 to August 19, 2020. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts. During any dispatch period, we continue to produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro.

#### Selling, General and Administrative Costs

Selling, general and administrative (“**SG&A**”) costs were \$2.2 million in the first quarter of 2021, \$1.1 million in the previous quarter and \$1.7 million in the first quarter of 2020. The higher SG&A costs in the current quarter were primarily attributable to variable compensation costs, including equity-based compensation.

#### Finance Costs and Accretion

Finance costs and accretion totaled \$1.1 million in the first quarter of 2021, \$1.3 million in the previous quarter and \$3.5 million in the first quarter of 2020. Finance costs in the first quarter of 2020 included \$2.2 related to our previous secured credit facility that supported our lumber mills which was repaid in full on February 1, 2020. Finance costs and accretion subsequent to February 1, 2020 relate primarily to our term loan supporting our bioenergy operations (the “**Power Term Loan**”).

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### Gain or Loss on Derivative Financial Instruments

Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period. We entered into lumber futures contracts for downside price protection on a small percentage of our estimated second and third quarter 2021 production. Due to lumber market conditions characterized by rapidly rising prices from January to March 2021, we recorded a loss from lumber derivative instruments of \$0.9 million in the first quarter of 2021, nil in the previous quarter and nil in the first quarter of 2020.

### Income Tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our balance sheet and the amounts used for income tax purposes. We recorded a deferred income tax expense of \$1.9 million in the first quarter of 2021 and \$0.6 million in the previous quarter, respectively, and a deferred income tax recovery of \$1.7 million in the first quarter of 2020. As at March 31, 2021, we have recognized deferred income tax assets of \$8.0 million.

### **Financial Position and Liquidity**

Overall debt was \$61.9 million at March 31, 2021 compared to \$63.4 million at December 31, 2020. The reduction of \$1.5 million in debt comprised lease repayments of \$0.3 million and Power Term Loan payments of \$1.2 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At March 31, 2021, we had \$59.2 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$2.8 million.

At March 31, 2021, we had total liquidity of \$16.4 million, compared to \$21.2 million at December 31, 2020 and \$12.1 million at March 31, 2020. Liquidity at March 31, 2021 was comprised of unrestricted cash of \$6.4 million and unused availability of \$10.0 million under our secured revolving credit facility.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber duties imposed by the United States government in April 2017. Cumulative duties of US\$12.3 million paid by us, net of sales of the right to refunds, since the inception of the current trade dispute remain held in trust by the US pending the administrative reviews and conclusion of all appeals of US decisions. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits to the extent additional costs on US destined shipments are not mitigated by higher lumber prices.

### **Outlook**

We expect lumber markets to remain strong in 2021, supported by robust demand from US housing starts and continued strength in the repair and remodeling sector. At our Mackenzie sawmill, we expect to achieve annualized operating rates of approximately 96% for the remainder of 2021. Our Mackenzie power plant is forecasted to operate at full capacity and continue to generate a steady and diversified source of cash flow, subject to the "turn down" notice received from BC Hydro for the latter half of the second quarter of 2021.

As our liquidity and financial position are forecasted to continue to strengthen in the second half of 2021, funding quick payback sawmill upgrades and our NCIB program remain key priorities.

### **Normal Course Issuer Bid**

In December 2020, we commenced a normal course issuer bid ("**NCIB**") for our common shares. Under the NCIB, we may purchase up to a maximum of 2,944,320 of our outstanding common shares. Pursuant to the NCIB, we may not repurchase more than (i) \$5 million of our common shares between the period of November 30, 2020 and September 30, 2021 and (ii) \$5 million of our common shares between the period of October 1, 2021 and the expiry of the bid. Any common shares acquired under the NCIB are purchased at the market price up to a daily maximum of 12,500 common shares, being 25% of the average daily trading volume for the six months prior to the bid, subject to the block purchase exemption. All common shares acquired by us under the NCIB are cancelled following purchase. The NCIB terminates on

November 30, 2021 or earlier if we have completed our purchases of the securities subject to the NCIB or if we otherwise determine that it is appropriate to suspend or terminate the bid. In March 2021, we purchased and cancelled 338,400 shares under the NCIB, for a total of 922,800 shares purchased and cancelled since the inception of the NCIB.

### **Conference Call**

We have scheduled a conference call on Tuesday, May 11, 2021 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the first quarter financial and operating results. To participate in the call, please dial 416-340-2217 or toll free 1-800-806-5484 and entering participant passcode 2381319#. The call will also be available on instant replay access until June 11, 2021 by dialling 905-694-9451 or 1-800-408-3053 and entering participant pass code 2184759#.

Management's discussion and analysis and financial statements for the quarter ended March 31, 2021 are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

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### **About Conifex Timber Inc.**

Conifex and its subsidiaries' primary business currently includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing and distribution. Conifex's lumber products are sold in the United States, Canadian and Japanese markets. Conifex also produces bioenergy at its power generation facility at Mackenzie, BC.

### **Forward-Looking Statements**

Certain statements in this news release may constitute "forward-looking statements". Forward-looking statements are statements that address or discuss activities, events or developments that Conifex expects or anticipates may occur in the future. When used in this news release, words such as "estimates", "expects", "plans", "anticipates", "projects", "will", "believes", "intends" "should", "could", "may" and other similar terminology are intended to identify such forward-looking statements. Forward-looking statements reflect the current expectations and beliefs of Conifex's management. Because forward-looking statements involve known and unknown risks, uncertainties and other factors, actual results, performance or achievements of Conifex or the industry may be materially different from those implied by such forward-looking statements. Examples of such forward-looking information that may be contained in this news release include statements regarding: growth and future prospects of our business, including the impact of COVID-19 thereon; our planned operating format and expected operating rates; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; planned capital expenditures and benefits that may accrue to Conifex as a result of capital expenditure programs; U.S. benchmark lumber prices; Conifex's expectations regarding the operation of the Mackenzie power plant; and our expectations for U.S. dollar benchmark prices. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management that the US housing market will improve; that there will be no unforeseen disruptions affecting the operation of our power generation plant and that we will be able to continue to deliver power therefrom; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do business. Forward-looking statements involve significant uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); shipping or logging disruptions; and other risk factors described in Conifex's management's discussion and analysis for the year ended December 31, 2020 and the quarter ended March 31, 2021, each of which is available on SEDAR at [www.sedar.com](http://www.sedar.com). These risks, as

well as others, could cause actual results and events to vary significantly. Accordingly, readers should exercise caution in relying upon forward-looking statements and Conifex undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.